

Cash purchases from Pheriwalas in excess of Rs 20,000 doesn't attract disallowance

Summary – The Chandigarh ITAT in a recent case of Ms. Nirmal Rani, (the Assessee) held that where assessee engaged in manufacturing leather goods had made payment in cash to butchers/pheriwalas who supplied hides and skin to it against kacha bills because purchases were made from unorganized sector and suppliers did not have printed bills, such payment was fully covered within meaning of rule 6DD(e)(ii), and no disallowance under section 40A(3) would be called for

Facts

- The assessee was manufacturing leather garments and leather goods for which the basic raw material was hides and skin of animal, which was purchased from butchers/pheriwalas who were growers/producers of hides and skin. These pheriwalas lived in remote-rural area which was an unorganized sector. No formal bills were issued by them, and payment for purchases made from those butchers/pheriwalas were made by the assessee in cash. The assessee claimed that these payments were made in cash as per rule 6DD(e)(ii).
- The Assessing Officer noted that purchases made in cash exceeded Rs. 20,000 which was in violation of provision of section 40A(3) and, accordingly, disallowed the same and added it back to income of assessee.
- The Commissioner (Appeals) confirmed the additions made by the Assessing Officer.
- On appeal before the Tribunal:

Held

- The case of the revenue is that two sellers had stated on oath in the statements recorded by the Assessing Officer that they purchased goats from the market and produced hides and skins. They also purchased hide and skins from other producers and treated the same before selling to the assessee and, therefore, the contention of the revenue is that these two persons are not the original producers of hides and skins by any stretch of imagination. The view taken by the revenue in this case is not tenable in view of the judgment of the Calcutta High Court in the case of *CIT v. CPL Tannery* [2009] 318 ITR 179/[2008] 175 Taxman 316, wherein the High Court has categorically held that processors of hides and skins are producers within meaning of rule 6DD(f)(ii); hence, cash payments made to them do not attract disallowance under section 40A(3).
- The assessee had made payments to small time vendors who supplied hides and skins on vehicles such as cycles, rickshawalas and rehri. The payments were being made to them against kacha bills because the purchases were made from unorganized sectors and the butchers do not have printed bills. It is also clear from the statements of sellers that they confirmed having purchased kacha skins from other butchers and after processing them with salt and mixture they sold these goods to the assessee. In view of the decision of the Calcutta High Court the payments made by the assessee is

fully covered within the meaning of rule 6DD(e)(ii) and, hence, cash payments were made to processors of hides and skins who are producers within the meaning of aforesaid Rule, and, hence, no disallowance under section 40A(3) is called for.